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OUR EXPERIMENTS IN FINANCIAL LEGISLATION.

BY THE HON. JAMES H. ECKELS, COMPTROLLER OF THE
CURRENCY.

THE tariff question, which for years has so completely overshadowed other governmental difficulties, has been so far entered upon as to make certain, that though it will yet receive great and much needed attention, its consideration will not exclude that of other economic and financial problems, the right solution of which is equally with it essential to the prosperity of our people. The result of the recent elections, instead of retarding an intelligent and comprehensive discussion of these questions, will rather tend to direct the people's attention to them and the necessity of such action being taken upon the part of the people's public servants as will take them out of the domain of political conflict and insure their settlement upon lines which accord with ordinary business principles and business methods.

Of these problems the most important in its immediate, not less than its future, effect upon every interest and industry of the country is the question of the currency, and to it, as must be evident to even the most casual observer of events, public thought is being more rapidly drawn than at any time within the past two decades. The events of the past year in the business world have demonstrated how intimate are the relations between correct and sound currency laws and all business undertakings, and that any error in principle or weakness in operation in any of our financial acts ultimately results in widespread business depression and financial disaster. Without in any wise underestimating the bad effects of unjust and inequitable revenue laws upon a people's prosperity, it must be patent to all that the harm worked by such laws is only secondary to that which results from a currency system which is either inherently weak or so incongruously con-

structed as to make its operation a continued source of anxiety, not only to those charged with such responsibility, but to all who are engaged in carrying on the business operations of the country. For more than a quarter of a century there has been as economically unsound and as absolutely inequitable a system of taxation governing the gathering of revenues in this country as was ever incorporated into the laws of any people, and yet, despite the fact that it has, upon the one hand, taken continuously from the people for governmental needs more than was required for such purpose, and, upon the other, increased the cost of living to every citizen, the native force and energy of the American people, aided by their natural resources, have enabled them in the largest measure to overcome the evil effects of that system and to accumulate an amazing amount of wealth. But while we have been thus enabled to withstand the destructive influence of such a revenue system, we have not had in even an approachable degree immunity from harm when there has been enacted as the law of the land a piece of bad financial legislation.

No better illustration of this could be had than that given to the people by the operation of the Sherman Silver Act. The thoughtful student of the financial and business conditions of the country knows that from the time that law was placed upon the statute-book until its repeal there was a steady and constantly increasing feeling of unrest in our business world. Unquestionably that feeling was intensified by the unprecedented financial depression in other countries with which we were on intimate business relations. The losses which marked the months of 1893, and affected to a greater or less degree the business conditions of 1894, were first felt in December, 1890, five months after the enactment of that law. That the climax was not then reached was due to the fact that the law had not been in operation a sufficient length of time to fully justify the fears which the business world entertained of its operation, and because the government was then in such a condition financially as enabled it to purchase a large amount of bonds, thus pouring into the money centers a sufficient amount of available money to relieve the stringency which had already taken hold upon the market and was evidencing itself in the closing of banks and the failure of commercial and other undertakings. The causes leading to the enactment of that law is in line with those resulting in the

greater number of our financial acts since the beginning of the war. There is scarcely a single act upon the statute-book affecting our currency system which was not placed there in order to meet some emergency that at the time confronted us, and which it was believed would bridge over a then present difficulty. When the greenback was created by statute no one looked upon it as more than a temporary expedient, and all believed that when the war was brought to a close and the necessity which called it into existence was at an end it would be retired. It is more than probable that if the suggestion had been made at the time of its incorporation into the currency of the country that it should be continued in use until this day, and the Secretary of the Treasury thereafter compelled by statute to reissue instead of cancelling it, even the force of its being a war measure would not have been sufficiently strong to secure an indorsement of it at the hands of Congress. At that time the great majority of the people of the country, irrespective of political affiliations, were believers in sound monetary principles. The idea that there was lodged with the General Government the power to create by its fiat something out of nothing had not yet taken hold of even a small minority. They believed in the greenback, but under protest, because they felt the necessity of giving to the government every requisite essential to the maintenance of the integrity of the nation, and acquiesced in its use because they entertained no doubt but that at a no distant day it would be redeemed and permanently retired from circulation. At that time few, if any, believed in its issue as based upon sound monetary principles, and none imagined that the time would come when it would be in part the chosen instrument of making the condition of the Treasury from day to day a matter of anxiety and a source of weakness to the country and the country's business interests.

But, unfortunately for the country, the then expedient evolved to meet an emergency fostered and quickened into life by legal-tender decisions on the part of the highest court of the land, has caused many of our people to lose sight of both the facts surrounding the birth of that currency and of the principles underlying a sound monetary system. It had at such time not been seriously suggested that the right was vested in the government, under the constitutional provision "to coin

money," of creating through governmental fiat a dollar which was neither intrinsically nor representatively worth a dollar, but now on every hand are to be found large numbers of people so led away by the outgrowth of what then seemed a source of good that they are either fiatists in the extreme, believing that the government's fiat should extend to the whole one hundred cents constituting a paper dollar, or moderate fiatists demanding that the government's fiat shall be bestowed upon the patent deficiency existing in the silver dollar only.

The currency issued under our national bank system is also the outcome of the necessities of the war. The object in mind in the creation of the national bank was not so much the furnishing to the people of a circulating medium responsive to the needs of the people under any and all circumstances, as to afford a market for bonds then issued for the purpose of raising revenue to conduct the affairs of the government. It afforded such a market and has given a perfectly sound currency, but has fallen short of supplying a volume sufficiently elastic to at all times meet the varying wants of trade and commerce. However, the national bank system, like the enactment affecting the greenback, has remained upon the statute-book materially unchanged, because the representatives of the people have been engrossed with other subjects of legislation which they have deemed of greater and more far-reaching importance. Of all the financial laws upon the statute-book which might be termed experimental in their character, the National Bank Act has proven to be the most successful and the most beneficial. This has arisen not more from the fact that the people have been afforded a uniform system of currency, which in and of itself has been promotive of commercial transactions within the Union, but through the banks themselves such banking methods have been formulated and put into use as have facilitated exchange, promoted commercial transactions, and brought into close and harmonious relation every section of the country. The people are apt to exaggerate the importance which now attaches to the note issuing power given the national banks. The right to issue currency is with the most of them only an incident instead of being the principal object of their existence, and it is an undoubted fact that many of them would willingly surrender such power. The reason for this is that under the present system of requiring a deposit of bonds as

security for circulation granted, they and the communities in which they do business are deprived of the use of a large amount of their available capital. Under a law which does not give to the banks the right to have circulation issue, even to the total percentage of the par value of the bond, to say nothing of a percentage equal to the market value, it is readily to be seen why so many banks are indifferent to the circulation feature of banking. When the law is so amended as to either do away with the bond deposit, or to grant to the banks the right to issue to the value of the securities so deposited by them, the matter of circulation will then be as important to them as is now the matter of deposits and discounts.

In the category of experimental, and to a degree unsuccessful, financial legislation, is to be classed the Bland silver legislation of 1878. It was designed to satisfy a great many people who were demanding a further issue of greenbacks in order to increase the volume of our currency, and to some extent it did so; but like every other legislative enactment not absolutely sound in principle, and thus enabled to bear every test which can be applied to it, it not only did not put an end to a demand on the part of many sections of the country for fiat money and a larger volume of circulating media, but it fostered the idea that the government ought to continually and arbitrarily increase the same, whether or no the needs of business required it. The effect of the Bland act was not to completely eradicate any evil threatened by greenbackism, but simply to substitute for the demand for a further issuance of greenbacks by the government a demand for the free coinage of all silver which should be deposited at our mints at the ratio of 16 to 1. This demand was not limited to the coinage of the product of the American mine alone, but contemplated the coinage of the product of all silver mines both home and foreign. It demanded that this be done irrespective of the action of any other nation with which we were carrying on commercial relations and in whose monetary system the free coinage of silver had no place. The force of the desire of the free-coinage advocates was augmented by the aid of the silver-mine owner who had his product to sell and who saw in such enactment the advantage not only of a sure and steady market but the certainty of a return beyond the actual value of the silver deposited by him with the United States for mintage.

The intensity of the demand grew so strong that it found expression in the House in the passage of a bill in 1890, which provided a market for a certain part of the product of the American mine, and in the Senate in the passage of an absolute free-coinage measure. The outcome of it all was the Sherman Silver Act, a compromise measure, enacted to prevent the passage of an absolute free-coinage act, wholly a temporary and experimental measure and the passage of which was influenced by politics, at least in some degree.

Of all the acts placed upon our statute-books in recent years none can compare in its effects with this act, in the injury wrought to so many of our people interested in so many walks in life. It affected the capitalist and the laborer alike, and with equal force fell upon the manufacturer, the merchant, and the agriculturist. Its course was so swift and its destruction so vast that without regard to party politics, legislators, enforced by unmistakable public sentiment, joined in erasing it from the statute-book. It ought to be the last experimental and political piece of financial legislation to be embodied in the laws of the land. The ruin created by it is so fresh in the minds of every one, and so readily admitted by Republican and Democrat alike, there ought to be no hesitation upon the part of the representatives of the people to formulate and enact into law some general system that will no longer make the currency conditions of the country a subject of continual discussion and constant inquiry. In the course of his report to Congress the Secretary of the Treasury, Mr. Carlisle, stated what is evidenced by all the facts :

"The unsatisfactory condition of our currency legislation has been for many years the cause for much discussion and disquietude among the people; and although one great disturbing element has been removed there still remains such inconsistencies in the laws, and such differences between the forms and qualities of the various kinds of currency in use, that private business is sometimes obstructed, and the Treasury Department is constantly embarrassed in conducting the fiscal operations of the government."

That there should be such embarrassment is not at all strange when the fact is taken into consideration that there are now in circulation nine different kinds of currency, all except two being dependent directly or indirectly upon the credit of the United States. By one statute the Secretary of the Treasury is compelled to redeem the old legal tender

notes in coin on presentation, and another compels him to reissue them no matter how often they are redeemed. They are never actually paid and extinguished, but are so governed by the law of the land as to operate as a menace rather than as a source of strength to the country's fiscal operations.

It would seem that some plan ought to be devised whereby both the Treasury Department and the business interests of the country will not be constantly in jeopardy through such laws as the Sherman Silver Act and kindred legislation. The perplexities under existing conditions could not be more succinctly or more admirably stated than in the language of the Secretary of the Treasury, who in the report referred to says:

"While the laws have imposed upon the Treasury Department all the duties and responsibilities of a bank of issue and to a certain extent the functions of a bank of deposit, they have not conferred upon the Secretary any part of the discretionary powers usually possessed by the executive head of institutions engaged in conducting this character of financial business. He is bound by mandatory or prohibitory provisions in the statutes to do or not to do certain things, without regard to the circumstances which may exist at the time he is required to act, and thus he is allowed no opportunity to take advantage of changes in the situation favorable to the interest of the government or to protect its interest from injury when threatened by adverse events or influences. He can neither negotiate temporary loans to meet casual deficiencies nor retire and cancel notes of the government without substituting other currency for them, when the revenues are redundant or the circulation excessive, nor can be resort, except to a very limited extent, to any of the expedients which in his judgment may be absolutely necessary to prevent injurious disturbances in the financial situation."

It seems incredible that such an indictment could be presented and justified by the absolute facts against that which we term the currency system of this country. In the light of it the wonder is not that we have suffered so much financial disaster during the years of its construction, but that we have suffered so little. It is not at all surprising that each morning the first inquiry that addresses itself to the business man of the country anxious to satisfy himself as to business conditions, is, Have a thousand dollars of gold come into the Treasury, or have a thousand dollars of gold gone out of the Treasury? No one can overestimate the detrimental influence upon the country's prosperity which such uncertainty breeds. It is an uncertainty which calls a halt upon every new undertaking, and blocks every avenue of trade in which a busy people are engaged. It will continue to work injury to the

people's interest until present conditions are completely changed, and the source of the evil completely done away with. It may be delayed, and its immediate effects for harm lessened by issuing bonds and the enactment of temporary measures of relief; but until the whole currency and banking system of the country is formulated into one harmonious plan in which each part shall be absolutely sound in principle, and the embodiment of monetary science, there can be no hope of undisturbed and substantial prosperity to all classes of the American people.

JAMES H. ECKELS.